

# **Charter Township of Highland Oakland County, Michigan**

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**Financial Report  
with Additional Information  
December 31, 2003**

# Charter Township of Highland

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## Independent Auditor's Report

To the Board of Trustees  
Charter Township of Highland  
Oakland County, Michigan

We have audited the accompanying general purpose financial statements of the Charter Township of Highland as of December 31, 2003 and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the Charter Township of Highland's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Charter Township of Highland as of December 31, 2003 and the results of its operations and cash flows of its proprietary fund type for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

February 6, 2004

# Charter Township of Highland

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
<b>Assets</b>			
Cash and investments (Note 2)	\$ 1,219,336	\$ 2,052,725	\$ 782,894
Due from other governmental units	248,075	-	-
Due from other funds (Note 7)	297,613	1,531,331	668,601
Taxes receivable	207,580	1,304,606	235,101
Refuse assessment receivable	-	436,069	-
Special assessment receivable	-	-	225,804
Capital assets (Note 5)	-	-	-
Amount available for debt service payments	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-
Total assets	<u><b>\$ 1,972,604</b></u>	<u><b>\$ 5,324,731</b></u>	<u><b>\$ 1,912,400</b></u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 70,391	\$ 267,895	\$ 346
Retainage payable	-	-	66,535
Accrued payroll and related taxes	8,652	19,578	-
Due to other funds (Note 7)	577,609	77,609	-
Due to other governmental units	-	-	-
Performance bonds payable and other liabilities	-	-	-
Tax collections distributable	-	-	-
Deferred revenue	408,457	3,569,121	669,854
Long-term debt (Note 6)	-	-	-
Total liabilities	1,065,109	3,934,203	736,735
<b>Fund Balances</b>			
Contributed capital (Note 8)	-	-	-
Investment in general fixed assets (Note 5)	-	-	-
Retained earnings - Unreserved	-	-	-
Fund balances:			
Reserved:			
Capital outlay	-	-	107,772
Debt service	-	-	214,655
Unreserved:			
Designated for future years' projects (Note 13)	127,156	112,735	676,831
Designated for subsequent years' expenditures	115,039	66,925	1,089
Undesignated	665,300	1,210,868	175,318
Total fund balances	907,495	1,390,528	1,175,665
Total liabilities and fund balances	<u><b>\$ 1,972,604</b></u>	<u><b>\$ 5,324,731</b></u>	<u><b>\$ 1,912,400</b></u>

**Combined Balance Sheet**  
**All Fund Types, Account Groups, and Component Unit**  
**December 31, 2003**

Proprietary Fund Type - Enterprise	Fiduciary Fund Type - Agency	Account Groups		Totals (Memorandum Only)		Component Unit - DDA
		General	General	December 31		
		Fixed Assets	Long-term Debt	2003	2002	
\$ 104,846	\$ 5,711,136	\$ -	\$ -	\$ 9,870,937	\$ 10,176,979	\$ 38,357
-	-	-	-	248,075	286,553	-
22,890	-	-	-	2,520,435	98,325	-
-	-	-	-	1,747,287	2,700,029	-
-	-	-	-	436,069	831,168	-
1,078,343	-	-	-	1,304,147	1,277,705	-
1,557,342	-	13,781,564	-	15,338,906	14,741,856	-
-	-	-	214,655	214,655	168,117	-
-	-	-	5,656,712	5,656,712	6,038,304	-
<u>\$ 2,763,421</u>	<u>\$ 5,711,136</u>	<u>\$ 13,781,564</u>	<u>\$ 5,871,367</u>	<u>\$ 37,337,223</u>	<u>\$ 36,319,036</u>	<u>\$ 38,357</u>
\$ 8,802	\$ -	\$ -	\$ -	\$ 347,434	\$ 312,857	\$ 600
12,215	-	-	-	78,750	83,428	-
-	-	-	-	28,230	59,217	-
64,892	1,800,325	-	-	2,520,435	98,325	-
-	262,770	-	-	262,770	1,940,715	-
-	740,081	-	-	740,081	515,417	-
-	2,907,960	-	-	2,907,960	3,419,230	-
-	-	-	-	4,647,432	4,533,361	-
1,150,000	-	-	5,871,367	7,021,367	7,266,421	-
1,235,909	5,711,136	-	5,871,367	18,554,459	18,228,971	600
1,243,246	-	-	-	1,243,246	1,070,266	-
-	-	13,781,564	-	13,781,564	13,277,309	-
284,266	-	-	-	284,266	311,528	-
-	-	-	-	107,772	371,888	-
-	-	-	-	214,655	168,117	-
-	-	-	-	916,722	415,764	-
-	-	-	-	183,053	-	-
-	-	-	-	2,051,486	2,475,193	37,757
1,527,512	-	13,781,564	-	18,782,764	18,090,065	37,757
<u>\$ 2,763,421</u>	<u>\$ 5,711,136</u>	<u>\$ 13,781,564</u>	<u>\$ 5,871,367</u>	<u>\$ 37,337,223</u>	<u>\$ 36,319,036</u>	<u>\$ 38,357</u>

# Charter Township of Highland

	General	Special Revenue	Capital Projects
<b>Revenue</b>			
General property taxes	\$ 379,136	\$ 2,375,299	\$ 456,201
Licenses and permits	239,666	-	-
Federal grants	64,293	-	35,742
State grants	22,758	5,250	139,804
Local grants	-	16,000	37,249
State-shared revenue	1,468,667	-	-
Charges for services:			
Refuse collection	-	1,011,556	-
Other	323,436	-	-
Special assessments	-	-	111,301
Interest and rent	39,231	39,218	60,514
Other revenue	187,388	333,254	9,792
<b>Total revenue</b>	<b>2,724,575</b>	<b>3,780,577</b>	<b>850,603</b>
<b>Expenditures</b>			
Legislative	21,362	-	-
Supervisor's office	147,947	-	-
Clerk's office	124,648	-	-
Treasurer's office	131,950	-	-
Accounting department	46,460	-	-
General government	1,028,633	-	-
Social services	51,295	-	-
Senior center	135,592	-	-
Refuse disposal	-	1,043,077	-
Cemetery	22,385	-	-
Law enforcement	22,091	-	-
Building	209,543	-	-
Planning	203,554	-	-
Assessing	131,807	-	-
Zoning Board of Appeals	9,067	-	-
Fire department	-	650,150	-
Road maintenance and improvements	-	107,666	-
Fire vehicles and equipment	-	45,114	-
Police services	-	2,075,620	-
Community parks	17,856	-	172,672
Debt service	-	-	516,717
Professional services	-	-	40,665
Capital outlay and other	-	-	342,158
<b>Total expenditures</b>	<b>2,304,190</b>	<b>3,921,627</b>	<b>1,072,212</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>420,385</b>	<b>(141,050)</b>	<b>(221,609)</b>
<b>Other Financing Sources (Uses)</b>			
Net proceeds from the issuance of debt	-	-	-
Transfers from other funds	10,097	241,000	477,609
Transfers from primary government to component unit	(15,000)	-	-
Transfers to other funds	(688,609)	(40,097)	-
<b>Total other financing sources (uses)</b>	<b>(693,512)</b>	<b>200,903</b>	<b>477,609</b>
<b>Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses</b>	<b>(273,127)</b>	<b>59,853</b>	<b>256,000</b>
<b>Fund Balances - Beginning of year</b>	<b>1,180,622</b>	<b>1,330,675</b>	<b>919,665</b>
<b>Fund Balances - End of year</b>	<b>\$ 907,495</b>	<b>\$ 1,390,528</b>	<b>\$ 1,175,665</b>

**Combined Statement of Revenue, Expenditures, and Changes in  
Fund Balances - All Governmental Fund Types and Component Unit  
Year Ended December 31, 2003**

Totals (Memorandum Only)		
Year Ended December 31		Component Unit - DDA
2003	2002	
\$ 3,210,636	\$ 3,031,614	\$ 5,369
239,666	246,786	-
100,035	68,162	-
167,812	339,630	-
53,249	322,599	-
1,468,667	1,599,303	-
1,011,556	992,110	-
323,436	240,309	-
111,301	118,694	-
138,963	205,427	328
530,434	680,807	29,250
7,355,755	7,845,441	34,947
21,362	22,172	-
147,947	154,782	-
124,648	143,038	-
131,950	135,587	-
46,460	47,590	-
1,028,633	929,675	-
51,295	120,922	-
135,592	124,783	-
1,043,077	1,016,842	-
22,385	23,297	-
22,091	21,383	-
209,543	229,470	-
203,554	193,332	-
131,807	150,163	-
9,067	9,112	-
650,150	570,742	-
107,666	59,955	-
45,114	44,243	-
2,075,620	1,920,229	-
190,528	652,538	-
516,717	489,675	-
40,665	115,624	-
342,158	3,479,941	48,169
7,298,029	10,655,095	48,169
57,726	(2,809,654)	(13,222)
-	140,000	-
728,706	223,232	-
(15,000)	(25,000)	15,000
(728,706)	(223,232)	-
(15,000)	115,000	15,000
42,726	(2,694,654)	1,778
3,430,962	6,125,616	35,979
<b>\$ 3,473,688</b>	<b>\$ 3,430,962</b>	<b>\$ 37,757</b>

# Charter Township of Highland

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue</b>			
General property taxes	\$ 389,700	\$ 379,136	\$ (10,564)
Licenses and permits	220,500	239,666	19,166
Federal grants	29,800	64,293	34,493
State grants	27,000	22,758	(4,242)
Local grants	-	-	-
State-shared revenue	1,564,671	1,468,667	(96,004)
Charges for services	265,421	323,436	58,015
Special assessments	-	-	-
Interest on investments	15,000	39,231	24,231
Other revenue	175,256	187,388	12,132
Transfers from other funds	-	10,097	10,097
Total revenue	2,687,348	2,734,672	47,324
<b>Expenditures</b>			
Legislative	22,747	21,362	1,385
Supervisor's office	153,544	147,947	5,597
Clerk's office	127,881	124,648	3,233
Treasurer's office	131,034	131,950	(916)
Accounting department	47,260	46,460	800
General government	1,209,698	1,028,633	181,065
Social services	50,631	51,295	(664)
Senior center	142,298	135,592	6,706
Refuse disposal	-	-	-
Cemetery	27,000	22,385	4,615
Law enforcement	22,105	22,091	14
Building	213,393	209,543	3,850
Planning	249,826	203,554	46,272
Assessing	131,601	131,807	(206)
Zoning Board of Appeals	13,140	9,067	4,073
Fire department	-	-	-
Police services	-	-	-
Fire vehicles and equipment	-	-	-
Road maintenance and improvements	-	-	-
Community parks	41,731	17,856	23,875
Transfers to component unit	15,000	15,000	-
Transfers to other funds	688,609	688,609	-
Total expenditures	3,287,498	3,007,799	279,699
<b>Excess of Revenue Over (Under) Expenditures</b>	(600,150)	(273,127)	327,023
<b>Fund Balances - January 1, 2003</b>	1,180,622	1,180,622	-
<b>Fund Balances - December 31, 2003</b>	<u>\$ 580,472</u>	<u>\$ 907,495</u>	<u>\$ 327,023</u>



**Combined Statement of Revenue, Expenditures, and  
Changes in Fund Balances - Budget and Actual  
General and Special Revenue Fund Types  
Year Ended December 31, 2003**

Special Revenue Funds		
Budget	Actual	Variance Favorable (Unfavorable)
\$ 2,393,997	\$ 2,375,299	\$ (18,698)
-	-	-
-	-	-
5,000	5,250	250
16,000	16,000	-
-	-	-
1,009,680	1,011,556	1,876
-	-	-
43,000	39,218	(3,782)
269,554	333,254	63,700
241,000	241,000	-
3,978,231	4,021,577	43,346
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
1,062,001	1,043,077	18,924
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
665,428	650,150	15,278
2,112,321	2,075,620	36,701
43,196	45,114	(1,918)
120,238	107,666	12,572
-	-	-
-	-	-
40,097	40,097	-
4,043,281	3,961,724	81,557
(65,050)	59,853	124,903
1,330,675	1,330,675	-
<b>\$ 1,265,625</b>	<b>\$ 1,390,528</b>	<b>\$ 124,903</b>

# Charter Township of Highland

## Statement of Revenue, Expenses, and Changes in Retained Earnings Proprietary Fund Type - Enterprise Fund Year Ended December 31, 2003

<b>Operating Revenue</b>	\$ -
<b>Operating Expenses</b>	
Miscellaneous expenses	2,554
Charges for professional services	13,401
Depreciation	<u>29,357</u>
<b>Operating Loss</b>	(45,312)
<b>Nonoperating Revenue (Expense)</b>	
Interest earnings	61,347
Interest expense	<u>(43,297)</u>
<b>Net Loss</b>	(27,262)
<b>Retained Earnings - January 1, 2003</b>	<u>311,528</u>
<b>Retained Earnings - December 31, 2003</b>	<u><u>\$ 284,266</u></u>

# Charter Township of Highland

## Statement of Cash Flows Proprietary Fund Type - Enterprise Fund Year Ended December 31, 2003

### Cash Flows from Operating Activities

Operating loss	\$ (45,312)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	29,357
Changes in assets and liabilities - Due to/from other funds	<u>(22,890)</u>
Net cash used in operating activities	(38,845)

### Cash Flows from Capital and Related Financing Activities

Proceeds from issuance of long-term debt	170,000
Interest paid on long-term debt	(41,619)
Principal payments on long-term debt	(80,000)
Purchase of capital assets	(109,937)
Special assessment collections - Principal and interest	<u>150,736</u>
Net cash provided by capital and related financing activities	89,180

### Cash Flows from Investing Activities - Interest received on investments

1,302

### Net Increase in Cash and Cash Equivalents

51,637

### Cash and Cash Equivalents - January 1, 2003

53,209

### Cash and Cash Equivalents - December 31, 2003

\$ 104,846

**Noncash Investing, Capital, and Financing Activities** - There were no noncash investing, capital, and financing activities during the year ended December 31, 2003.

# Charter Township of Highland

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**Notes to Financial Statements  
December 31, 2003**

## **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Charter Township of Highland (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

### **Reporting Entity**

The Township is governed by an elected seven-member Board of Trustees. As required by GAAP, these general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. The individual discretely presented component units discussed below are included in the Township's reporting entity because of the significance of their operational or financial relationships with the Township.

The Downtown Development Authority (the "Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of 11 individuals, is approved by the Township's Board. In addition, the Authority's budget is subject to approval by the Township.

The Brownfield Development Authority (BRDA) was created, pursuant to Public Act 381 of 1996, to provide revitalization of environmentally distressed areas with the Township. The BRDA will be funded primarily by property tax revenue captures. Currently, there is no financial activity with the BRDA, nor have members of the Board been appointed.

The cash and investments of Highland Public Library are included in the Township's Special Escrow Agency Fund.

### **Fund Accounting**

The accounts of the Township are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The various funds are grouped, in the combined financial statements in this report, into generic fund types in three broad fund categories as follows:

#### **Governmental Funds**

**General Fund** - The General Fund contains the records of the ordinary activities of the Township that are not accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

# Charter Township of Highland

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## Notes to Financial Statements December 31, 2003

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

**Capital Projects Funds** - Capital Projects Funds are used to account for capital improvements and land acquisition.

#### **Proprietary Funds**

**Enterprise Fund** - The Enterprise Fund is used to account for the results of operations that provide a service to citizens that is financed primarily by a user charge for the provision of that service. The Township's only Enterprise Fund is the Water Fund.

#### **Fiduciary Funds**

**Agency Funds** - Agency Funds account for assets held by the Township as an agent for individuals, organizations, other governments, or other funds. Such funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

#### **Basis of Accounting**

All governmental funds, Agency Funds, and the component unit utilize the modified accrual basis of accounting. The Enterprise Fund utilizes the full accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Property taxes and other revenue that are both measurable and available for use to finance operations of the Township are recorded as revenue when earned. Other revenue is recorded when received.

Properties are assessed as of December 31. The related property taxes are billed on December 1 of the following year and become a lien at that time. These taxes are due on February 14 with a final collection date of February 28 before they are added to the county tax rolls.

Property taxes and the annual refuse charge for services billed during the month of December will be used to finance the following year's operations. As such, these taxes are recorded as deferred revenue in each respective fund on December 31.

- b. Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end.

### Note I - Summary of Significant Accounting Policies (Continued)

- c. Interest income on special assessments receivable is not accrued until its due date.
- d. Interest on bonded indebtedness and other long-term debt is not recorded as an expenditure until its due date.
- e. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
- f. Normally, expenditures are not divided between years by the recording of prepaid expenses.
- g. The noncurrent portion of accumulated sick and vacation pay liabilities is reflected in the General Long-term Debt Account Group.

**Fixed Assets and Long-term Liabilities** - Fixed assets used in governmental fund-type operations are accounted for in the General Fixed Assets Account Group, rather than in the governmental funds. Such assets, which are recorded as expenditures at the time of purchase, do not include certain improvements such as roads, bridges, curbs and gutters, streets and sidewalks, and lighting systems. No depreciation has been provided on general fixed assets.

All fixed assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-term Debt Account Group, not in the governmental funds.

The General Fixed Assets Account Group and the General Long-term Debt Account Group are not funds and do not involve the measurement of results of operations.

Fixed assets and long-term liabilities relating to the proprietary funds are accounted for in those funds. Depreciation on such fixed assets is charged as an expense against the operations of the proprietary funds on a straight-line basis.

**Cash Equivalents** - For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

# Charter Township of Highland

## Notes to Financial Statements December 31, 2003

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Investments** - Investments are recorded at fair value, based on quoted market prices.

**Memorandum-only Totals** - The total data presented is the aggregate of the fund types and account groups and is presented for analysis purposes only. No consolidating or other eliminations were made in arriving at the totals; therefore, they do not present consolidated information.

Other accounting policies are disclosed in other notes to financial statements.

### Note 2 - Deposits and Investments

The Township's cash and investments are classified by Governmental Accounting Standards Board Statement No. 3 in the following categories:

Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 8,206,133
Investments in bank investment pools	793,676
Investments in interlocal agreement	870,880
Petty cash	<u>248</u>
Total	<u>\$ 9,870,937</u>

#### Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$8,507,189. Of that amount, approximately \$400,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# Charter Township of Highland

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## Notes to Financial Statements December 31, 2003

### **Note 2 - Deposits and Investments (Continued)**

#### **Investments**

The Township is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances, and mutual funds and investment pools that are composed of authorized investment vehicles. To the extent that cash from various funds has been pooled in an investment, related investment income is allocated to each fund based on relative participation in the pool, except that Agency Funds investment earnings are allocated to the General Fund.

The bank investment pools and the interlocal agreement investment pool are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in the funds comply with the investment authority noted above. The bank investment pools are regulated by the Michigan Banking Act. Investments under the interlocal agreement (MBIA-CLASS) are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares.

#### **Component Unit**

The cash of the component unit represents \$38,357 of bank deposits. This amount is completely covered by FDIC insurance.

### **Note 3 - Budget Information**

The annual budget is prepared by the Township Supervisor and adopted by the Township Board; subsequent amendments are approved by the Township Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at December 31, 2003 has not been calculated. During the current year, the budget was amended in a legally permissible manner, except that the budget was amended after year end.

The budget has been prepared in accordance with generally accepted accounting principles, with the exception of operating transfers, which have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."



# Charter Township of Highland

## Notes to Financial Statements December 31, 2003

### Note 3 - Budget Information (Continued)

The budget statement (combined statement of revenue, expenditures, and changes in fund balances - budget and actual - General and Special Revenue Fund types) is presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budget statement to the operating statement (combined statement of revenue, expenditures, and changes in fund balances - all governmental fund types):

	General Fund		Special Revenue Funds	
	Total	Total	Total	Total
	Revenue	Expenditures	Revenue	Expenditures
Amounts per operating statement	\$ 2,724,575	\$ 2,304,190	\$3,780,577	\$ 3,921,627
Operating transfers budgeted as revenue and expenditures	10,097	703,609	241,000	40,097
Amounts per budget statement	<u>\$ 2,734,672</u>	<u>\$ 3,007,799</u>	<u>\$4,021,577</u>	<u>\$ 3,961,724</u>

The budget is adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund as adopted by the Township Board is included in the general purpose financial statements. A comparison of the actual results of operations to the Special Revenue Funds, as adopted by the Township Board, is available at the clerk's office for inspection.

### Note 4 - Defined Contribution Retirement Plan

The Township provides pension benefits to substantially all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate after six months from the date of employment. As established by the Township Board of Trustees, the Township contributes 15 percent of employees' gross earnings. The Township's contributions for each employee are immediately fully vested. In accordance with these requirements, the Township contributed \$110,546 during the current year. There are no provisions in the plan for employee contributions.

# Charter Township of Highland

## Notes to Financial Statements December 31, 2003

### Note 5 - Land, Buildings, and Equipment

A summary of changes in general fixed assets follows:

	Balance January 1, 2003	Additions	Deletions	Balance December 31, 2003
Land and improvements	\$ 1,774,993	\$ 11,652	\$ -	\$ 1,786,645
Buildings and improvements	2,006,117	121,167	-	2,127,284
Library building	5,913,069	82,902	-	5,995,971
Vehicles and equipment	2,944,753	147,181	21,500	3,070,434
Construction in progress	638,377	162,853	-	801,230
Total	<u>\$ 13,277,309</u>	<u>\$ 525,755</u>	<u>\$ 21,500</u>	<u>\$ 13,781,564</u>

A summary of proprietary fund fixed assets at December 31, 2003 follows:

	Enterprise	Depreciable Life - Years
Water mains	\$ 1,467,807	50
Construction in progress	<u>122,153</u>	-
Total	1,589,960	
Less accumulated depreciation	<u>(32,618)</u>	
Net carrying amount	<u>\$ 1,557,342</u>	

# Charter Township of Highland

## Notes to Financial Statements December 31, 2003

### Note 6 - Long-term Debt

#### Outstanding Debt

The following represents the debt outstanding of the Township as of December 31, 2003:

	No. of issues	Interest Rate	Maturing Through	Principal Outstanding
Special assessment bonds	4	5.25%-9%	2012	\$ 377,000
Library building bond - Unlimited Tax General Obligation Bonds	1	4.50%-4.60%	2019	5,080,000
Installment purchase contract	1	4.63%	2009	250,000
Land contract	1	6.00%	2004	67,567
Compensated absences	-	-	-	42,567
Property tax appeals	-	-	-	<u>54,233</u>
Total general long-term debt				5,871,367
Enterprise - Special assessment bonds	2	3.25%-4.7%	2016	<u>1,150,000</u>
Net long-term debt				<u>\$ 7,021,367</u>

The special assessment bonds represent the financing of public improvements that benefit specific districts; these districts are specially assessed, at least in part, for the cost of the improvements. There is approximately \$200,000 of special assessments receivable in the future in the Capital Projects Funds - Lakeview Lane Improvements, Woodruff Lake, Kellogg Taggett, and Highland Lake; in addition, the Township has \$196,200 set aside in these funds for the repayment of the bonds. The amount of receivables delinquent at December 31, 2003 is not significant. Under Michigan law, the Township is secondarily liable for payment of these bonds.

The compensated absences represent the estimated liability to be paid governmental fund-type employees under the Township's sick and vacation pay policy, net of the portion that is estimated will be paid currently (which has been recorded as a liability in the applicable governmental fund). Under the Township's policy, employees earn sick and vacation time based on time of service with the Township.

# Charter Township of Highland

## Notes to Financial Statements December 31, 2003

### Note 6 - Long-term Debt (Continued)

#### Changes in Long-term Debt

The following is a summary of long-term debt transactions of the Township for the year ended December 31, 2003:

	Governmental Funds						Proprietary Fund Type - Enterprise	Total
	Special Assessment Bonds	Library Building Bond	Installment Purchase Contract	Land Contract	Compensated Absences	Property Tax Appeals		
Balance - January 1, 2003	\$ 408,500	\$ 5,300,000	\$ 285,000	\$ 84,391	\$ 48,002	\$ 80,528	\$ 1,060,000	\$ 7,266,421
New debt issued	-	-	-	-	-	-	170,000	170,000
Debt retired	(31,500)	(220,000)	(35,000)	(16,824)	-	-	(80,000)	(383,324)
Decrease in obligation for								
compensated absences	-	-	-	-	(5,435)	-	-	(5,435)
Decrease in property tax appeals	-	-	-	-	-	(26,295)	-	(26,295)
Balance - December 31, 2003	<u>\$ 377,000</u>	<u>\$ 5,080,000</u>	<u>\$ 250,000</u>	<u>\$ 67,567</u>	<u>\$ 42,567</u>	<u>\$ 54,233</u>	<u>\$ 1,150,000</u>	<u>\$ 7,021,367</u>

#### Debt Service Requirements

The annual requirements to service all debt outstanding (excluding compensated absences and property tax appeals), including both principal and interest, as of December 31, 2003 are as follows:

Years Ending December 31	Principal and Interest Payments					Total
	Special Assessment	Library Building	Installment Purchase	Land Contract	Enterprise	
	Bonds	Bond	Contract	Contract	Enterprise	
2004	\$ 69,622	\$ 468,040	\$ 46,575	\$ 71,451	\$ 126,052	\$ 781,740
2005	66,510	466,890	44,955	-	127,057	705,412
2006	63,644	465,160	48,334	-	133,846	710,984
2007	65,570	467,855	51,482	-	130,420	715,327
2008	53,772	464,975	49,399	-	126,943	695,089
Remaining years	149,616	4,766,820	52,315	-	818,462	5,787,213
Total	\$ 468,734	\$ 7,099,740	\$ 293,060	\$ 71,451	\$ 1,462,780	\$ 9,395,765

#### Interest Incurred

Total interest incurred for the Township for the year approximated \$317,000.

# Charter Township of Highland

## Notes to Financial Statements December 31, 2003

### Note 7 - Interfund Receivables

The following are the interfund receivables at December 31, 2003:

General Fund:

Special Revenue Funds - Police Fund	\$ 77,609
Enterprise Fund - Water Fund	64,892
Agency Funds - Current Tax	154,934
Agency Funds - Special Escrow Fund	<u>178</u>
Total General Fund	297,613

Special Revenue Funds:

General Fund	100,000
Agency Funds - Current Tax Fund	<u>1,431,331</u>
Total Special Revenue Funds	1,531,331

Capital Projects Funds:

General Fund - Capital Improvement Fund	477,609
Agency Funds - Current Tax Fund	<u>190,992</u>
Total Capital Projects Funds	668,601

Proprietary Fund - Enterprise - Agency Funds - Current Tax Fund	<u>22,890</u>
Total interfund receivables	<u><u>\$2,520,435</u></u>

### Note 8 - Contributed Capital

The following is an analysis of contributed capital for the year ended December 31, 2003:

	Balance January 1, 2003	Current Year Changes	Balance December 31, 2003
Water Fund - Capital contributed by source - Special assessments	<u>\$ 1,070,266</u>	<u>\$ 172,980</u>	<u>\$ 1,243,246</u>

# Charter Township of Highland

## Notes to Financial Statements December 31, 2003

### Note 9 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for workers' compensation and medical benefit claims, and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The Michigan Municipal Risk Management Authority state pool program operates as a common risk-sharing management program. Member premiums are used to purchase Authority-underwritten excess insurance coverage and to pay member claims in excess of deductible amounts.

### Note 10 - Construction Code Fees

The Township oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. Beginning January 1, 2000, the law required that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2001 is as follows:

Shortfall as of December 31, 2002	\$ (86,612)
Building permit revenue	239,667
Related expenses:	
Direct costs	\$ (209,542)
Estimated indirect costs	<u>(42,851)</u>
Total construction code expenses	<u>(252,393)</u>
Shortfall as of December 31, 2003	<u>\$ (99,338)</u>

### Note 11 - Postretirement Benefits

The Township provides health care benefits to all full-time employees upon retirement in accordance with the Township Board's policy. Currently, four retirees are eligible. In addition, 21 active employees may be entitled to benefits upon retirement. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$26,500.

# Charter Township of Highland

## Notes to Financial Statements December 31, 2003

### Note 12 - Contingencies and Commitments

The Township has been named as defendant in several claims and lawsuits requesting damages of various amounts. The various proceedings have not progressed to the point where a legal opinion can be reached as to the ultimate liability, if any, after consideration of available insurance, where applicable, that may result from the resolution of these matters. The Township has not recorded an estimate of this liability in the General Long-term Debt Account Group as of December 31, 2003.

The Township has entered into various contracts as of December 31, 2003, for which there remains approximately \$135,000 in outstanding commitments as of year end.

### Note 13 - Designated Fund Balances

The Township has designated fund balance for future years' projects in the following funds:

#### General Fund:

Community parks	\$ 840
Grant matching	110,909
Ride with pride	4,226
Beautification	1,700
Grant	4,725
Dunleavy Lake	1,256
Building maintenance and utilities	<u>3,500</u>
Total General Fund designations	<u>\$ 127,156</u>

#### Special Revenue Fund - Road Fund:

Tri-Party Program	\$ 12,136
Postemployment benefits	100,000
Police Fund - DARE expenses	<u>599</u>
Total Special Revenue Fund	<u>\$ 112,735</u>

#### Capital Projects Fund - Capital Improvement Fund - Township improvement

\$ 676,831

# **Charter Township of Highland**

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## **Notes to Financial Statements December 31, 2003**

### **Note 14 - Upcoming Reporting Change**

For the year beginning January 1, 2004, the Township plans to adopt GASB Statement No. 34. This will dramatically revise the information being reported in these financial statements. Governmental activities will report information by individually significant fund, as well as in total on the full accrual basis of accounting. Information is not available to present pro forma data that would show the effect of this future change.



## **Additional Information**

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To the Board of Trustees  
Charter Township of Highland  
Oakland County, Michigan

We have audited the general purpose financial statements of the Charter Township of Highland for the year ended December 31, 2003. Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of the Charter Township of Highland. This information has been subjected to the procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

*Plante & Moran, PLLC*

February 6, 2004

# Charter Township of Highland

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	<u>Refuse</u>	<u>Fire Operating</u>
<b>Assets</b>		
Cash and investments	\$ 528,643	\$ 279,057
Taxes receivable	-	326,869
Due from other funds	469,013	241,094
Refuse assessment receivable	<u>436,069</u>	<u>-</u>
Total assets	<u><b>\$ 1,433,725</b></u>	<u><b>\$ 847,020</b></u>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Accounts payable	\$ 38,659	\$ 6,727
Accrued payroll and related taxes	-	19,578
Due to other funds	-	-
Deferred revenue	<u>1,025,472</u>	<u>637,292</u>
Total liabilities	1,064,131	663,597
<b>Fund Balances</b>		
Designated for future years' projects	-	-
Designated for subsequent year's budget	-	-
Unreserved and undesignated	<u>369,594</u>	<u>183,423</u>
Total fund balances	<u>369,594</u>	<u>183,423</u>
Total liabilities and fund balances	<u><b>\$ 1,433,725</b></u>	<u><b>\$ 847,020</b></u>

**Special Revenue Funds  
Combining Balance Sheet  
December 31, 2003**

Road	Fire Capital	Police	Post- employment Benefits	Total
\$ 79,061	\$ 233,703	\$ 932,261	\$ -	\$ 2,052,725
-	-	977,737	-	1,304,606
-	-	721,224	100,000	1,531,331
-	-	-	-	436,069
<u>\$ 79,061</u>	<u>\$ 233,703</u>	<u>\$ 2,631,222</u>	<u>\$ 100,000</u>	<u>\$ 5,324,731</u>
\$ -	\$ -	\$ 222,509	\$ -	\$ 267,895
-	-	-	-	19,578
-	-	77,609	-	77,609
-	-	1,906,357	-	3,569,121
-	-	2,206,475	-	3,934,203
12,136	-	599	100,000	112,735
66,925	-	-	-	66,925
-	233,703	424,148	-	1,210,868
<u>79,061</u>	<u>233,703</u>	<u>424,747</u>	<u>100,000</u>	<u>1,390,528</u>
<u>\$ 79,061</u>	<u>\$ 233,703</u>	<u>\$ 2,631,222</u>	<u>\$ 100,000</u>	<u>\$ 5,324,731</u>

# Charter Township of Highland

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	<u>Refuse</u>	<u>Fire Operating</u>
<b>Revenue</b>		
General property taxes	\$ -	\$ 599,929
State grants	-	-
Local grants	-	-
Charges for services	1,011,556	-
Interest on investments	9,619	6,370
Other revenue	<u>118,828</u>	<u>24,780</u>
Total revenue	1,140,003	631,079
<b>Expenditures</b>		
Refuse disposal	1,043,077	-
Fire department	-	650,150
Road maintenance and improvements	-	-
Fire vehicles and equipment	-	-
Police services	<u>-</u>	<u>-</u>
Total expenditures	<u>1,043,077</u>	<u>650,150</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	96,926	(19,071)
<b>Other Financing Sources (Uses)</b>		
Transfers from other funds	-	-
Transfers to other funds	<u>(10,097)</u>	<u>(30,000)</u>
Total other financing sources (uses)	<u>(10,097)</u>	<u>(30,000)</u>
<b>Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses</b>	86,829	(49,071)
<b>Fund Balances - January 1, 2003</b>	<u>282,765</u>	<u>232,494</u>
<b>Fund Balances - December 31, 2003</b>	<u><u>\$ 369,594</u></u>	<u><u>\$ 183,423</u></u>

**Special Revenue Funds**  
**Combining Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances**  
**Year Ended December 31, 2003**

Road	Fire Capital	Police	Post- employment Benefits	Total
\$ -	\$ -	\$ 1,775,370	\$ -	\$ 2,375,299
-	-	5,250	-	5,250
-	-	16,000	-	16,000
-	-	-	-	1,011,556
1,034	1,408	20,787	-	39,218
4,898	-	184,748	-	333,254
5,932	1,408	2,002,155	-	3,780,577
-	-	-	-	1,043,077
-	-	-	-	650,150
107,666	-	-	-	107,666
-	45,114	-	-	45,114
-	-	2,075,620	-	2,075,620
107,666	45,114	2,075,620	-	3,921,627
(101,734)	(43,706)	(73,465)	-	(141,050)
51,000	90,000	-	100,000	241,000
-	-	-	-	(40,097)
51,000	90,000	-	100,000	200,903
(50,734)	46,294	(73,465)	100,000	59,853
129,795	187,409	498,212	-	1,330,675
<b>\$ 79,061</b>	<b>\$ 233,703</b>	<b>\$ 424,747</b>	<b>\$ 100,000</b>	<b>\$ 1,390,528</b>

# Charter Township of Highland

	Capital Improvement	Lakeview Lane Improvement	Library Building
<b>Assets</b>			
Cash and investments	\$ 319,887	\$ 13,481	\$ 187,249
Taxes receivable	-	-	235,101
Due from other funds	477,609	-	173,097
Special assessments receivable	-	18,587	-
Total assets	<u><u>\$ 797,496</u></u>	<u><u>\$ 32,068</u></u>	<u><u>\$ 595,447</u></u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Retainage payable	\$ 11,014	\$ -	\$ 55,867
Deferred revenue	-	18,020	457,562
Total liabilities	11,014	18,020	513,429
<b>Fund Balances</b>			
Reserved for capital outlay	-	-	-
Reserved for debt service	-	14,048	18,455
Designated for subsequent year's budget	-	-	-
Designated for future years' projects	676,831	-	-
Unreserved and undesignated	109,651	-	63,563
Total fund balances	<u>786,482</u>	<u>14,048</u>	<u>82,018</u>
Total liabilities and fund balances	<u><u>\$ 797,496</u></u>	<u><u>\$ 32,068</u></u>	<u><u>\$ 595,447</u></u>

**Capital Projects Funds  
Combining Balance Sheet  
December 31, 2003**

Woodruff Lake	Kellogg - Taggett	Highland Lake Well	Peninsula Lake Weed Harvesting	Total
\$ 31,713	\$ 73,364	\$ 155,319	\$ 1,881	\$ 782,894
-	-	-	-	235,101
2,496	8,713	6,686	-	668,601
29,593	80,968	84,722	11,934	225,804
<u>\$ 63,802</u>	<u>\$ 163,045</u>	<u>\$ 246,727</u>	<u>\$ 13,815</u>	<u>\$ 1,912,400</u>
\$ -	\$ -	\$ -	\$ -	\$ 66,881
27,051	75,641	79,646	11,934	669,854
27,051	75,641	79,646	11,934	736,735
11,276	12,357	82,258	1,881	107,772
25,475	75,047	81,630	-	214,655
-	-	1,089	-	1,089
-	-	-	-	676,831
-	-	2,104	-	175,318
36,751	87,404	167,081	1,881	1,175,665
<u>\$ 63,802</u>	<u>\$ 163,045</u>	<u>\$ 246,727</u>	<u>\$ 13,815</u>	<u>\$ 1,912,400</u>



# Charter Township of Highland

	Capital Improvement	Lakeview Lane Improvement	Library Building
<b>Revenue</b>			
General property taxes	\$ -	\$ -	\$ 456,201
CDBG revenue	35,742	-	-
State grant revenue	139,804	-	-
Local grants	37,249	-	-
Special assessments	-	9,263	-
Other income	9,792	-	-
Interest and rent	53,224	177	3,670
Total revenue	275,811	9,440	459,871
<b>Expenditures</b>			
Professional services	40,665	-	-
Parks	172,672	-	-
Capital outlay and other	132,365	-	153,614
Debt service	-	10,787	458,390
Total expenditures	345,702	10,787	612,004
<b>Excess of Revenue Over (Under) Expenditures</b>	(69,891)	(1,347)	(152,133)
<b>Other Financing Sources - Operating transfers in</b>	477,609	-	-
<b>Excess of Revenue and Other Financing Sources Over (Under) Expenditures</b>	407,718	(1,347)	(152,133)
<b>Fund Balances - January 1, 2003</b>	378,764	15,395	234,151
<b>Fund Balances - December 31, 2003</b>	<u>\$ 786,482</u>	<u>\$ 14,048</u>	<u>\$ 82,018</u>

**Capital Projects Funds**  
**Combining Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances**  
**Year Ended December 31, 2003**

Woodruff Lake	Kellogg - Taggett	Highland Lake Well	Peninsula Lake Weed Harvesting	Total
\$ -	\$ -	\$ -	\$ -	\$ 456,201
-	-	-	-	35,742
-	-	-	-	139,804
-	-	-	-	37,249
12,968	44,531	42,658	1,881	111,301
-	-	-	-	9,792
397	749	2,297	-	60,514
13,365	45,280	44,955	1,881	850,603
-	-	-	-	40,665
-	-	-	-	172,672
420	6,368	49,391	-	342,158
13,584	25,528	8,428	-	516,717
14,004	31,896	57,819	-	1,072,212
(639)	13,384	(12,864)	1,881	(221,609)
-	-	-	-	477,609
(639)	13,384	(12,864)	1,881	256,000
37,390	74,020	179,945	-	919,665
<u>\$ 36,751</u>	<u>\$ 87,404</u>	<u>\$ 167,081</u>	<u>\$ 1,881</u>	<u>\$ 1,175,665</u>

# Charter Township of Highland

## Agency Funds Combining Balance Sheet December 31, 2003

	Special Escrow	Current Tax	
	Fund	Fund	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 740,259	\$ 4,708,107	\$ 5,448,366
Cash and investments held on behalf of library	<u>262,770</u>	<u>-</u>	<u>262,770</u>
Total assets	<u><b>\$ 1,003,029</b></u>	<u><b>\$ 4,708,107</b></u>	<u><b>\$ 5,711,136</b></u>
<b>Liabilities</b>			
Due to library	\$ 262,770	\$ -	\$ 262,770
Due to other funds	178	1,800,147	1,800,325
Tax collections distributable	-	2,907,960	2,907,960
Performance bonds payable and other	<u>740,081</u>	<u>-</u>	<u>740,081</u>
Total liabilities	<u><b>\$ 1,003,029</b></u>	<u><b>\$ 4,708,107</b></u>	<u><b>\$ 5,711,136</b></u>

February 6, 2004

Members of the Township  
Charter Township of Highland  
205 N. John Street  
Highland, MI 48357

Dear Board Members:

We have recently completed our audit of the financial statements for the Charter Township of Highland for the year ended December 31, 2003. As a result of our audit, we offer the following observations and comments for your consideration:

The Township has, over the past several years, improved the condition of its financial records, and this year was no exception. In particular, we compliment the Township for the continued improvement in its bank reconciliation processes.

## OVERVIEW OF THE TOWNSHIP'S FINANCIAL CONDITION

The General Fund fund balance at December 31, 2003 is approximately \$907,500 of which \$242,000 has been designated for expenditures in future years. The undesignated portion of fund balance represents approximately 29 percent of 2003 expenditures. In the coming years, the Township will continue to face future revenue reductions as the State's economic growth and associated revenue sharing payments decline. The Township has appropriately placed emphasis in the past on maintaining a sufficient level of fund balance to be able to adjust to expected and unanticipated financial changes, such as you are currently experiencing. An adequate level of fund balance positions the Township to address negative financial changes without disrupting the level of services provided to citizens or the Township's ability to fund future obligations.

## ENTERPRISE FUND – WATER SYSTEM

Last year, the Township was required to set-up an Enterprise Fund to capture the water fund activity. This Enterprise Fund is being used to account for the activity related to the watermain projects. Because the County is currently administering the system, including the customer billings and related collections, the Township should be receiving at least quarterly reports from the County in order to record the related financial activity- including any cash held by the County on the Township's behalf – on the Township's general ledger.

In addition, because maintaining this fund requires the Township to use full accrual based accounting instead of modified accrual there are a few accounting items the Township should be handling differently than for its modified accrual funds, as follows:

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## **ENTERPRISE FUND – WATER SYSTEM (Continued)**

- Fixed asset purchases are capitalized on the balance sheet and depreciated over the useful life of the asset.
- Long-term debt is recognized as a liability within the enterprise fund. Principal payments would be recorded as a reduction to the liability balance.

We would be happy to assist the Township to fully implement full accrual accounting of this fund throughout the year.

## **MISCELLANEOUS ACCOUNTING ITEMS**

During the audit, we noted a few additional minor items

- Reconciliation of tax collection cash – Periodically, the cash recorded in the tax collection fund should be reconciled to the various amounts owed. While this reconciliation was performed as of December 31, 2003, there was a small unreconciled difference as of that date. A more frequent reconciliation, such as on a quarterly basis, may enable the township to reconcile this account completely in the future.
- Number of cash accounts – Currently, the township has over 40 different cash and investment accounts. The Township has done a good job to track all those accounts and ensure reconciliations are performed on a monthly basis. However, the sheer number of accounts makes this a time-consuming process. To maximize efficiency, the township may want to review whether or not any accounts could be consolidated, depending upon the type of account and state law.
- Review of performance bonds – As of December 31, 2003, the Township has approximately \$45,000 in performance bonds outstanding. Some of the bonds have been outstanding for several years (dating back as late as 1994). The township may want to review the bonds listing, and, to the extent possible, follow up on any old bonds that relate to completed projects. It may be possible that some bonds should be taken in to revenue and other bonds should be returned to the original payor.

## **NEW REPORTING MODEL – GASB 34**

As we have discussed over the last several years, the Governmental Accounting Standards Board issued a new pronouncement that will change the presentation of governmental financial statements. The expected benefits of the new model include improved comparability of financial statements between communities, and a better matching of the current year's revenue sources to the full cost of services provided during that year.

Some of the changes in the model include the following:

- A "Management's Discussion and Analysis" section
- Entity-wide financial statements (balance sheet and operating statements) prepared on a full accrual basis. There will be two columns, one for governmental activities and one for enterprise activities.

## **NEW REPORTING MODEL – GASB 34 (Continued)**

- Capital assets and their related depreciation will be reported.

The Township will need to fully implement GASB 34 for the year beginning January 1, 2004, which includes restating the Township's financial information as of that date for these changes. It is likely that the adoption of the new reporting model may require several changes to the Township's financial systems, especially in relation to fixed assets. Many decisions will need to be addressed and much financial information will need to be compiled in advance of the implementation date. The implementation of this new pronouncement is a significant undertaking. We will continue to advise the Township on key issues and assist in any way possible to ensure a smooth transition.

## **STATE SHARED REVENUE**

Municipalities in Michigan have and will continue to feel the effects of the slow down in the State's economy. State shared revenue accounted for approximately 55% of the Township's total General Fund revenue for the calendar year ended December 31, 2003. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the State's fiscal years ending September 30, 2002 and 2003 were less than originally projected.

The Governor's recent Executive Order 2003-23 lowered the appropriation for statutory revenue sharing an additional \$72 million. Supplemental legislation will be required to update the current formulas in statute to reflect the lower appropriation. Under existing law and the October 2003 Consensus Revenue Estimates, fiscal year 2003/2004 revenue sharing payments would be 4.2% lower than the 2002/2003 level. The Executive Order causes an additional decline of 5 percent, to 9.2%. Local units receive revenue sharing under both the statutory and constitutional provisions; that estimate is based on a reduction of the combined total.

It is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the Township to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

## **MUNICIPAL FINANCE ACT REVISIONS – REMINDER**

The Municipal Finance Act was amended during 2001. Beginning after March 2002, communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the Township's year end (which means for Highland that filing is due June 30, 2004) and is good for one year thereafter.

## PROPERTY TAXES

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

2004	2.3%	1999	1.6%
2003	1.5%	1998	2.7%
2002	3.2%	1997	2.8%
2001	3.2%	1996	2.8%
2000	1.9%	1995	2.6%

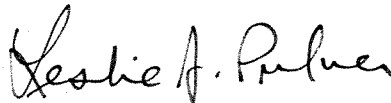
The 2003 inflation factor, which is the lowest level of inflation in the last ten years, is being used for property taxes levied in the Township's calendar year ended December 31, 2004. As indicated above, growth in existing property are significantly limited due to Proposal A. This factor should be considered when the Township is involved in long-term financial planning.

The Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the Township. In general terms, if growth in the Township's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the Township to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the Township's existing property tax base was less than inflation, the Headlee Amendment allowed the Township to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A, the Township is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

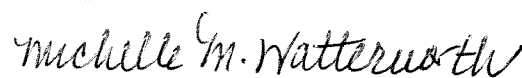
We would like to thank the Township personnel for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

**PLANTE & MORAN, PLLC**



Leslie J. Pulver



Michelle M. Watterworth